

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Clio, Michigan

**Financial Report
with Supplemental Information
June 30, 2007**

City of Clio, Michigan

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City of Clio, Michigan

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Independent Auditor's Report

To the Board of Commissioners
City of Clio, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Clio (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Commissioners
City of Clio, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 30, 2007

City of Clio, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Clio's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- The parks department was approximately \$22,200 over the original budget due mostly to the expense of the amphitheater roof with a cost of \$25,000, which was offset by grants and donations of \$13,300, leaving an actual cost to the City of \$11,700.
- Smith Street Park total expense was \$26,701, \$11,138 over the original budget. As a result of board action, \$25,062 was transferred in from the Settlement Fund to cover all but \$1,639. This helped to improve the park with minimal impact on the General Fund.
- The police department was approximately \$68,000 under the original budget due to full-time officer wages, K-9 expenses, equipment rental expense, and a conscious effort to keep overtime and general expenses low. In addition, the police department was able to purchase and pay in full two cruisers and a state-of-the-art electronic fingerprint and mug shot identification system (Live Scan). The Live Scan was purchased with money from a federal grant, a Wal-Mart Foundation grant, and private donations.
- In total, the City of Clio was able to secure \$28,900 in donations and grants to offset Live Scan and the amphitheater roof cost. The City of Clio also transferred in a total of \$30,062 from the Settlement Fund to offset park expenses.
- The above grants, donations, increased interest income, and transfer in from the Settlement Fund resulted in an increase in total revenue from the original budget of approximately \$61,700. Overall department savings led to a slight reduction in total expenses from the original budget of \$2,100, helping the City to gain in fund balance approximately \$70,500, leaving a starting balance in the General Fund of \$326,948 for the fiscal year 2007-2008.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date as compared to the prior year amounts (in thousands of dollars).

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 1,088	\$ 1,079	\$ 703	\$ 753	\$ 1,791	\$ 1,832
Noncurrent assets	2,397	1,924	1,986	1,884	4,383	3,808
Total assets	3,485	3,003	2,689	2,637	6,174	5,640
Liabilities						
Current liabilities	202	152	190	147	392	299
Long-term liabilities	509	575	1,270	1,355	1,779	1,930
Total liabilities	711	727	1,460	1,502	2,171	2,229
Net Assets						
Invested in capital assets -						
Net of related debt	1,888	1,419	710	539	2,598	1,958
Restricted	198	287	-	-	198	287
Unrestricted	688	570	519	596	1,207	1,166
Total net assets	<u>\$ 2,774</u>	<u>\$ 2,276</u>	<u>\$ 1,229</u>	<u>\$ 1,135</u>	<u>\$ 4,003</u>	<u>\$ 3,411</u>

The City's combined net assets increased approximately 18 percent from last year.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year as compared with the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 205	\$ 196	\$ 1,063	\$ 955	\$ 1,268	\$ 1,151
Operating grants and contributions	191	185	-	-	191	185
Capital grants and contributions	375	28	-	-	375	28
General revenue:						
Property taxes	844	816	-	-	844	816
State-shared revenue	280	290	-	-	280	290
Unrestricted investment earnings	47	35	30	27	77	62
Franchise fees	26	25	-	-	26	25
Miscellaneous	26	31	1	1	27	32
Total revenue	1,994	1,606	1,094	983	3,088	2,589
Program Expenses						
General government	386	393	-	-	386	393
Public safety	573	595	-	-	573	595
Public works	171	173	-	-	171	173
Highways and streets	200	198	-	-	200	198
Community and economic development	43	9	-	-	43	9
Recreation and culture	93	125	-	-	93	125
Interest on long-term debt	30	33	-	1	30	34
Water	-	-	592	560	592	560
Sewer	-	-	408	386	408	386
Total program expenses	1,496	1,526	1,000	947	2,496	2,473
Change in Net Assets	\$ 498	\$ 80	\$ 94	\$ 36	\$ 592	\$ 116

Governmental Activities

Overall, the net assets increased during the current year by approximately \$418,000 vs. \$80,000 in the prior year, in large part due to increased capital project activity in the 2006-2007 fiscal year. The City completed Center Street road work, purchased two new police cruisers, and made major improvements to the amphitheater and Smith Street Park.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit Water System. We provide sewage treatment through a county-owned and operated sewage treatment plant. We used approximately \$48,000 from the cash balance in the Sewer and Water Funds. This is due in part to a 25 percent water loss, not receiving \$59,400 in anticipated tap-in fees from the Lost Creek project, and budgeting to use fund balance for Oak Street water line project in the amount of \$20,291.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The city commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, the Major Streets Fund, the Local Streets Fund, and the Public Improvement Fund.

The General Fund pays for most of the City's governmental services. The most significant are general government and public safety, which incurred expenses in excess of \$981,000 in 2007. General Fund activities include the cost of day-to-day operations to run the City. In addition, the city commission, city administrator, city clerk, and city treasurer departments, as well as planning and assessing, are part of the General Fund activities. Public safety consists of police protection and the City's contribution to the Clio Area Fire Authority. With total expenses for the General Fund at \$1,291,787, you can see that these two activities make up a major portion of the total.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant changes were to increase the parks department, including Smith Street Park expenses, and decrease police department expenses. The park adjustments were made possible by grants and transfers in from the Settlement Fund. The reduction in police department expenses helped to fund two new cruisers and add to the overall General Fund balance. The General Fund overall was approximately \$2,100 under its original budget in expenses, and due to an increase in revenue of \$61,744 from the original budget, the General Fund fund balance will increase by approximately \$70,500.

Capital Asset and Debt Administration

At the end of 2007, the City had approximately \$4,383,000 invested in a broad range of capital assets, including buildings, police and DPS equipment, and water and sewer lines. In 2007, the City increased investment into new capital assets by \$763,000. The 2006-2007 fiscal year saw the City completing construction of Center St. road improvement, Center St. water line project, and Oak St. water line being 90 percent completed by year's end.

City of Clio, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for a slight decrease in state revenue sharing but an increase in overall revenue. This is due to higher unit operating millage value compared to the previous year. The budget also reflects a slight increase in cost due to yearly wage increases in contracts with the department of public services and police department unions and inflation. We have budgeted money for capital improvements in the Smith St. Park, Tacoma Falls, New Street resurfacing, and Center Street water line. The City continues to express caution to each department head in regard to expenses.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city administrator's office.

City of Clio, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash (Note 3)	\$ 903,086	\$ 514,298	\$ 1,417,384	\$ 84,491
Due from other governmental units	87,311	-	87,311	1,510
Receivables:				
Customers	-	109,467	109,467	-
Special assessments	16,784	-	16,784	-
Other	14,548	-	14,548	-
Restricted assets - Unspent bond proceeds (Note 8)	65,893	79,653	145,546	-
Capital assets - Net (Note 5):				
Nondepreciated	484,131	33,905	518,036	169,800
Depreciated	1,913,551	1,951,798	3,865,349	-
Total assets	3,485,304	2,689,121	6,174,425	255,801
Liabilities				
Accounts payable	91,787	77,939	169,726	426
Due to other governmental units	1,909	-	1,909	-
Accrued and other liabilities	38,732	26,858	65,590	-
Noncurrent liabilities (Note 7):				
Due within one year	69,728	85,000	154,728	-
Due in more than one year	509,307	1,270,000	1,779,307	-
Total liabilities	711,463	1,459,797	2,171,260	426
Net Assets				
Invested in capital assets - Net of related debt	1,888,293	710,356	2,598,649	169,800
Restricted:				
Streets and highways	83,773	-	83,773	-
Park and other equipment	9,169	-	9,169	-
Debt service	68,404	-	68,404	-
Program education	21,772	-	21,772	-
Sanitation collection	14,155	-	14,155	-
Unrestricted	688,275	518,968	1,207,243	85,575
Total net assets	\$ 2,773,841	\$ 1,229,324	\$ 4,003,165	\$ 255,375

City of Clio, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 385,740	\$ 5,504	\$ 169	\$ -
Public safety	573,379	65,732	16,532	-
Public works	170,806	103,025	-	-
Highways and streets	200,231	-	174,162	360,555
Community and economic development	43,189	28,635	-	-
Recreation and culture	93,079	1,643	-	14,800
Interest on long-term debt	30,358	-	-	-
Total governmental activities	1,496,782	204,539	190,863	375,355
Business-type activities:				
Water	591,812	679,830	-	-
Sewer	407,777	383,553	-	-
Total business-type activities	999,589	1,063,383	-	-
Total primary government	<u>\$ 2,496,371</u>	<u>\$ 1,267,922</u>	<u>\$ 190,863</u>	<u>\$ 375,355</u>
Component unit - Downtown Development Authority	<u>\$ 8,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes
State-shared revenues
Unrestricted investment earnings
Franchise fees
Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (380,067)	\$ -	\$ (380,067)	\$ -
(491,115)	-	(491,115)	-
(67,781)	-	(67,781)	-
334,486	-	334,486	-
(14,554)	-	(14,554)	-
(76,636)	-	(76,636)	-
(30,358)	-	(30,358)	-
(726,025)	-	(726,025)	-
-	88,018	88,018	-
-	(24,224)	(24,224)	-
-	63,794	63,794	-
(726,025)	63,794	(662,231)	-
-	-	-	(8,910)
843,607	-	843,607	49,313
280,489	-	280,489	-
46,957	30,147	77,104	2,826
26,195	-	26,195	-
26,471	-	26,471	-
1,223,719	30,147	1,253,866	52,139
497,694	93,941	591,635	43,229
2,276,147	1,135,383	3,411,530	212,146
\$ 2,773,841	\$ 1,229,324	\$ 4,003,165	\$ 255,375

City of Clio, Michigan

Governmental Funds Balance Sheet June 30, 2007

	Major Funds					Other Non-	Total
	General	Major Streets	Local Streets	Public	Major Street	major	Total
	Fund	Fund	Fund	Improvements	Construction	Governmental	Governmental
	Fund	Fund	Fund	Fund	Fund	Funds	Funds
Assets							
Cash (Note 3)	\$ 414,660	\$ 108,276	\$ 22,664	\$ 230,380	\$ -	\$ 87,716	\$ 863,696
Due from other funds (Note 6)	-	-	-	8,471	-	-	8,471
Due from other governmental units	10,200	20,387	6,148	-	-	-	36,735
Receivables:							
Special assessments	-	-	-	-	-	16,784	16,784
Other	14,548	-	-	-	-	-	14,548
Restricted assets - Unspent bond proceeds	-	-	-	-	65,893	-	65,893
Total assets	\$ 439,408	\$ 128,663	\$ 28,812	\$ 238,851	\$ 65,893	\$ 104,500	\$ 1,006,127
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 50,523	\$ 5,082	\$ -	\$ -	\$ 5,939	\$ -	\$ 61,544
Due to other funds	31,646	-	-	-	-	-	31,646
Due to other governmental units	1,909	-	-	-	-	-	1,909
Accrued and other liabilities	28,382	673	2,054	-	-	169	31,278
Deferred revenue (Note 4)	-	-	-	-	-	16,784	16,784
Total liabilities	112,460	5,755	2,054	-	5,939	16,953	143,161
Fund Balances							
Reserved for parks and park improvements	1,519	-	-	7,412	-	-	8,931
Reserved for police equipment	238	-	-	-	-	-	238
Unreserved - Reported in:							
General Fund	325,191	-	-	-	-	-	325,191
Special Revenue Funds	-	122,908	26,758	231,439	-	35,927	417,032
Debt Service Funds	-	-	-	-	-	51,620	51,620
Capital Projects Funds	-	-	-	-	59,954	-	59,954
Total fund balances	326,948	122,908	26,758	238,851	59,954	87,547	862,966
Total liabilities and fund balances	\$ 439,408	\$ 128,663	\$ 28,812	\$ 238,851	\$ 65,893	\$ 104,500	\$ 1,006,127

City of Clio, Michigan

Governmental Funds Reconciliation of Fund Balance of Governmental Funds to the Statement of Net Assets June 30, 2007

Total Fund Balance of Governmental Funds	\$ 862,966
Capital assets used in governmental activities are not financial resources and are not reported in the funds	2,315,232
Revenue-sharing due from the State not received within 60 days of year end is not available currently and is not recorded in the funds	50,576
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	16,784
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(568,753)
Accrued interest is not due and payable in the current period and is not reported in the funds	(7,306)
Internal Service Fund is included as part of governmental activities	<u>104,342</u>
Net Assets of Governmental Activities	<u>\$ 2,773,841</u>

City of Clio, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Funds						
	General Fund	Major Streets Fund	Local Streets Fund	Public Improvements Fund	Major Street Construction Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue							
Property taxes	\$ 843,607	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 843,607
Licenses and permits	17,191	-	-	-	-	-	17,191
Federal sources	7,500	-	-	-	360,255	-	367,755
State sources	293,023	137,020	37,442	-	-	-	467,485
Charges for services	9,193	-	-	-	-	102,025	111,218
Fines and forfeitures	47,528	-	-	-	-	-	47,528
Interest	20,428	5,967	1,400	9,898	4,100	5,083	46,876
Other	93,847	5,508	2,783	-	-	6,249	108,387
Total revenue	1,332,317	148,495	41,625	9,898	364,355	113,357	2,010,047
Expenditures							
General government	382,403	16,444	10,872	-	-	-	409,719
Public safety	598,249	-	-	-	-	-	598,249
Public works	115,910	-	-	-	-	97,092	213,002
Highway and streets	-	80,440	31,574	-	440,629	-	552,643
Recreation and cultural	105,166	-	-	-	-	-	105,166
Civic buildings	43,189	-	-	-	-	-	43,189
Debt service	310	65,693	8,330	-	-	15,170	89,503
Total expenditures	1,245,227	162,577	50,776	-	440,629	112,262	2,011,471
Excess of Revenue Over (Under)							
Expenditures	87,090	(14,082)	(9,151)	9,898	(76,274)	1,095	(1,424)
Other Financing Sources (Uses)							
Transfers in (Note 6)	30,062	-	-	-	-	490	30,552
Transfers out (Note 6)	(46,560)	(612)	(367)	(30,062)	-	-	(77,601)
Total other financing sources (uses)	(16,498)	(612)	(367)	(30,062)	-	490	(47,049)
Net Change in Fund Balances	70,592	(14,694)	(9,518)	(20,164)	(76,274)	1,585	(48,473)
Fund Balances - Beginning of year	256,356	137,602	36,276	259,015	136,228	85,962	911,439
Fund Balances - End of year	<u>\$ 326,948</u>	<u>\$ 122,908</u>	<u>\$ 26,758</u>	<u>\$ 238,851</u>	<u>\$ 59,954</u>	<u>\$ 87,547</u>	<u>\$ 862,966</u>

City of Clio, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds **\$ (48,473)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation 442,704

Revenue reported in the statement of activities that does not provide
current financial resources is not reported as revenue in the
governmental funds (GASB No. 33) (5,234)

Special assessment revenues are recorded in the statement of
activities when the assessment is set; they are not reported
in the funds until collected or collectible within 60 days of
year end (4,356)

Repayment of bond principal is an expenditure in the
governmental funds, but not in the statement of activities
(where it reduces long-term debt) 60,000

Changes in accumulated employee vacation pay are recorded
when earned in the statement of activities (789)

Internal Service Funds are also included as governmental
activities 53,842

Change in Net Assets of Governmental Activities **\$ 497,694**

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Net Assets June 30, 2007

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Total	
Assets				
Current assets:				
Cash (Note 3)	\$ 305,237	\$ 209,061	\$ 514,298	\$ 39,390
Due from other funds	-	-	-	23,175
Receivables:				
Customer	66,165	43,302	109,467	-
Other	-	-	-	-
Total current assets	371,402	252,363	623,765	62,565
Noncurrent assets:				
Restricted assets - Unspent bond proceeds	27,918	51,735	79,653	-
Capital assets - Net - Depreciated (Note 5)	1,607,019	344,779	1,951,798	82,450
Total noncurrent assets	1,668,842	396,514	2,065,356	82,450
Total assets	2,040,244	648,877	2,689,121	145,015
Liabilities				
Current liabilities				
Accounts payable	45,224	32,715	77,939	30,243
Accrued and other liabilities	20,581	6,277	26,858	148
Total current liabilities	65,805	38,992	104,797	30,391
Noncurrent liabilities (Note 7):				
Due within one year	69,000	16,000	85,000	5,975
Due in more than one year	1,101,881	168,119	1,270,000	4,307
Total noncurrent liabilities	1,170,881	184,119	1,355,000	10,282
Total liabilities	1,236,686	223,111	1,459,797	40,673
Net Assets				
Invested in capital assets - Net of related debt	497,961	212,395	710,356	72,168
Unrestricted	305,597	213,371	518,968	32,174
Total net assets	\$ 803,558	\$ 425,766	\$ 1,229,324	\$ 104,342

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
Operating Revenue				
Water sales	\$ 335,058	\$ -	\$ 335,058	\$ -
Sewage disposal	-	210,607	210,607	-
Ready to serve charges	209,805	172,102	381,907	-
Rental income	-	-	-	119,024
Other revenue	28,644	844	29,488	1,250
Total operating revenue	573,507	383,553	957,060	120,274
Operating Expenses				
Cost of water	233,943	-	233,943	-
Cost of sewage disposal	-	166,526	166,526	-
Operation and maintenance	263,248	193,762	457,010	92,822
Depreciation	48,486	34,681	83,167	20,864
Total operating expenses	545,677	394,969	940,646	113,686
Operating Income (Loss)	27,830	(11,416)	16,414	6,588
Nonoperating Revenue (Expense)				
Federal revenue	106,323	-	106,323	-
Interest income	15,645	14,502	30,147	81
Interest expense	(46,135)	(11,829)	(57,964)	(855)
Total nonoperating revenue (expense)	75,833	2,673	78,506	(774)
Income (Loss) Before Transfers	103,663	(8,743)	94,920	5,814
Other Financing Sources (Uses)				
Transfers in (Note 6)	-	-	-	48,518
Transfers out (Note 6)	-	(979)	(979)	(490)
Total other financing sources (uses)	-	(979)	(979)	48,028
Change in Net Assets	103,663	(9,722)	93,941	53,842
Net Assets - Beginning of year	699,895	435,488	1,135,383	50,500
Net Assets - End of year	<u>\$ 803,558</u>	<u>\$ 425,766</u>	<u>\$ 1,229,324</u>	<u>\$ 104,342</u>

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Cash Flows Year Ended June 30, 2007

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 541,705	\$ 387,456	\$ 929,161	\$ 119,024
Payments to suppliers	(352,587)	(288,928)	(641,515)	(79,691)
Payments to employees	(119,850)	(53,367)	(173,217)	(6,890)
Other receipts	28,644	844	29,488	1,250
Net cash provided by operating activities	97,912	46,005	143,917	33,693
Cash Flows from Capital and Related Financing Activities				
Receipt of capital grants	106,323	-	106,323	-
Benefit charges received from customers	-	-	-	2,555
Interfund activity related to capital items	-	(979)	(979)	48,028
Purchase of capital assets	(166,323)	(18,157)	(184,480)	(51,904)
Principal and interest paid on capital debt	(115,135)	(27,829)	(142,964)	(6,460)
Net cash used in capital and related financing activities	(175,135)	(46,965)	(222,100)	(7,781)
Cash Flows from Investing Activities - Interest received on investments	15,645	14,502	30,147	81
Net (Decrease) Increase in Cash	(61,578)	13,542	(48,036)	25,993
Cash - Beginning of year	394,733	247,254	641,987	13,397
Cash - End of year	<u>\$ 333,155</u>	<u>\$ 260,796</u>	<u>\$ 593,951</u>	<u>\$ 39,390</u>
Balance Sheet Classification of Cash				
Cash	\$ 305,237	\$ 209,061	\$ 514,298	\$ 39,390
Restricted assets - Unspent bond proceeds	27,918	51,735	79,653	-
Total cash	<u>\$ 333,155</u>	<u>\$ 260,796</u>	<u>\$ 593,951</u>	<u>\$ 39,390</u>

City of Clio, Michigan

Proprietary Funds Enterprise Funds and Internal Service Fund Statement of Cash Flows (Continued) Year Ended June 30, 2007

	Enterprise Funds - Major Funds			Internal
	Water	Sewer	Total	Service Fund
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 27,830	\$ (11,416)	\$ 16,414	\$ 6,588
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	48,486	34,681	83,167	20,864
Changes in assets and liabilities:				
Receivables	(3,158)	4,747	1,589	-
Accounts payable	16,271	17,925	34,196	29,480
Accrued and other liabilities	8,483	68	8,551	(64)
Due from other funds	-	-	-	(23,175)
Net cash provided by operating activities	<u>\$ 97,912</u>	<u>\$ 46,005</u>	<u>\$ 143,917</u>	<u>\$ 33,693</u>

Noncash Activities - During the year ended June 30, 2007, the City did not have any noncash transactions.

City of Clio, Michigan

Fiduciary Funds Agency Fund Statement of Assets and Liabilities June 30, 2007

Assets - Cash (Note 3)	<u>\$ 27,829</u>
Liabilities - Other	<u>\$ 27,829</u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Clio (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Clio:

Reporting Entity

The City is governed by an elected seven-member commission (Board of Commissioners). As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Clio and its component unit, the Downtown Development Authority. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

The Downtown Development Authority (the "Authority") is reported within the component unit column in the statement of net assets and the statement of activities. It is reported in a separate column to emphasize that it is legally separate from the City. The Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, consisting of nine individuals, is selected by the City Commission. There are no separately issued reports for these component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets and Local Streets Funds - The Major Streets and Local Streets Funds account for repairs and maintenance of streets in the City which are financed primarily through state-shared revenue and miscellaneous local sources.

Public Improvements Fund - The Public Improvements Fund accounts for the development, construction, and improvements to various properties in the City, financed through various local sources.

Major Street Construction Fund - The Major Street Construction Fund accounts for the development, construction, and improvements to various major streets in the City, financed by bonding revenue.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system, which provides services to citizens, financed primarily by a user charge for the provision of these services.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system, which provides services to citizens, financed primarily by a user charge for the provision of these services.

Additionally, the City reports the following fund types:

Internal Service Funds - Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When an expense has been incurred for purposes for which both restricted and unrestricted resources are available, it is the City's policy to first apply restricted resources.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. These taxes are considered delinquent on September 30, at which time penalties and interest are assessed.

The 2006 taxable valuation of the City totaled approximately \$48,135,000, on which taxes levied consisted of 17.000 mills for operating purposes, resulting in approximately \$818,000 for the City, including various administrative fees and delinquent tax revenues.

In addition, the component unit's taxable value is approximately \$15,180,000 at a millage rate of 2 mills, resulting in taxes levied of approximately \$30,000 for its operations. This amount is recognized in the statement of activities as tax revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Unspent bond proceeds of the Major Street Construction, Water, and Sewer Funds are required to be set aside for construction; therefore, they are classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. As allowable under GASB Statement No. 34, the City has elected not to retroactively record infrastructure assets acquired prior to July 1, 2003. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Governmental activities:

Buildings	50 years
Office and other equipment	3 to 10 years
Land improvements	15 years
Roads and sidewalks	20 years
Vehicles and related equipment	5 to 7 years

Business-type activities:

Water and sewer transmission lines	50 years
Treatment facilities	7 to 35 years
Machinery and equipment	7 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation benefits. All vacation is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

City of Clio, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance, and Accountability

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. Fees for these services are collected by Vienna Township. Vienna Township remits 10 percent of the fees to the City; therefore, no direct costs were incurred during the year ended June 30, 2007 related to these activities. The City records the activities relating to the construction code in the General Fund. A summary of the current year activity, including an allocation of estimated overhead costs and cumulative shortfall, is as follows:

Shortfall at June 30, 2006	\$	(29,254)
Current year building permit revenue		16,626
Related expenses:		
Direct costs	\$	22,376
Estimated indirect costs		<u>2,410</u>
Total construction code expenses		<u>24,786</u>
Shortfall at June 30, 2007	\$	<u><u>(37,414)</u></u>

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits (Continued)

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in all of the investment vehicles listed above. The deposits and investment policies are in accordance with statutory authority.

The City had no investments during the year ended June 30, 2007.

Custodial Credit Risk of Bank Deposits

The City's cash deposits are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,385,000 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

In addition, the component unit's cash deposits are subject to custodial credit risk. The component unit does not have a deposit policy for custodial credit risk. At year end, all of the bank deposits were fully covered by the FDIC insurance.

Note 4 - Deferred Revenue

On the fund-based statements, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. There was no unearned deferred revenue for the years ended June 30, 2006 and June 30, 2007.

On the government-wide statements, since reporting is based on the full accrual basis of accounting, both governmental and business-type activities report only the amount of unearned revenue as deferred.

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Reclass	Additions	Disposals	Balance June 30, 2007
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 469,946	\$ -	\$ -	\$ -	\$ 469,946
Construction in progress	55,599	(55,599)	14,185	-	14,185
Subtotal	525,545	(55,599)	14,185	-	484,131
Capital assets being depreciated:					
Buildings and improvements	705,998	-	43,409	-	749,407
Office and other equipment	412,457	-	14,225	12,000	414,682
Land improvements	18,850	-	14,066	-	32,916
Roads and sidewalks	862,233	55,599	440,539	-	1,358,371
Vehicles and related equipment	230,391	-	51,902	3,500	278,793
Subtotal	2,229,929	55,599	564,141	15,500	2,834,169
Accumulated depreciation:					
Buildings and improvements	297,660	-	14,119	-	311,779
Office and other equipment	280,797	-	34,748	12,000	303,545
Land improvements	3,771	-	1,257	-	5,028
Roads and sidewalks	58,631	-	43,374	-	102,005
Vehicles and related equipment	190,677	-	11,084	3,500	198,261
Subtotal	831,536	-	104,582	15,500	920,618
Net capital assets being depreciated	1,398,393	55,599	459,559	-	1,913,551
Net capital assets	\$ 1,923,938	\$ -	\$ 473,744	\$ -	\$ 2,397,682
Business-type Activities					
Capital assets not being depreciated -					
Construction in progress	\$ -	\$ -	\$ 33,905	\$ -	\$ 33,905
Capital assets being depreciated:					
Water and sewer transmission lines	2,167,197	-	150,577	-	2,317,774
Treatment facilities	298,519	-	-	-	298,519
Machinery and equipment	173,104	-	-	-	173,104
Subtotal	2,638,820	-	150,577	-	2,789,397
Accumulated depreciation:					
Water and sewer transmission lines	448,773	-	45,994	-	494,767
Treatment facilities	211,335	-	12,448	-	223,783
Machinery and equipment	94,322	-	24,727	-	119,049
Subtotal	754,430	-	83,167	-	837,599
Net capital assets being depreciated	1,884,390	-	67,410	-	1,951,798
Net capital assets	\$ 1,884,390	\$ -	\$ 101,314	\$ -	\$ 1,985,703

Note 5 - Capital Assets

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$	7,886
Public safety		338
Public works		101
Highways and streets		43,374
Recreation and culture		32,019
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset		<u>20,864</u>
Total governmental activities	\$	<u>104,582</u>

Business-type activities:

Water	\$	48,486
Sewer		<u>34,681</u>
Total business-type activities	\$	<u>83,167</u>

The component units' capital assets consisted of land totaling \$169,800. There were no purchases or disposals during the year ended June 30, 2007.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
Internal Service Fund	General Fund	\$ 23,175
Public Improvement Fund	General Fund	<u>8,471</u>
Total governmental funds		<u>\$ 31,646</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Clio, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Internal Service Fund (2)	\$ 46,560
Major Streets Fund (2)	Internal Service Fund (2)	612
Local Streets Fund (2)	Internal Service Fund (2)	367
Internal Service Fund (2)	Sanitation Collection Fund (2)	490
Public Improvement Fund	General Fund	30,062
Total governmental funds		<u>\$ 78,091</u>
Proprietary fund - Sewer Fund	Internal Service Fund	<u>\$ 979</u>

(1) Transfer for capital improvements

(2) Transfer for general operations

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General Obligation Bonds:							
1998 Act 175 Bonds - Major Streets:							
Amount of issue: \$360,000	4.5% -						
Maturing through 2013	5.0%	\$25,000	\$ 175,000	\$ -	\$ (25,000)	\$ 150,000	\$ 25,000
2000 General Obligation Bonds:							
Amount of issue: \$85,000	5.3% -	\$5,000 -					
Maturing through 2015	7.0%	\$10,000	55,000	-	(5,000)	50,000	5,000
2004 General Obligation Bonds:							
Amount of issue: \$345,000	3.15% -	\$20,000 -					
Maturing through 2019	4.60%	\$30,000	305,000	-	(20,000)	285,000	20,000
Installment purchase agreements:							
Various equipment and auto agreements:							
Amount of issue: \$71,130	3.28% -	\$513 -					
Maturing through 2010	6.72%	\$3,203	15,887	-	(5,605)	10,282	5,975
2000 Special Assessment Bonds:							
Amount of issue: \$120,000	5.3% -	\$5,000 -					
Maturing through 2014	7.0%	\$10,000	90,000	-	(10,000)	80,000	10,000
Total bonds and installment purchase agreements			640,887	-	(65,605)	575,282	65,975
Accumulated compensated absences			2,964	789	-	3,753	3,753
Total governmental activities			\$ 643,851	\$ 789	\$ (65,605)	\$ 579,035	\$ 69,728
Business-type Activities							
General obligation bonds:							
2003 Capital Improvement Bonds:							
Amount of issue: \$640,000	3.934% -	\$35,000 -					
Maturing through 2018	4.60%	\$55,000	\$ 535,000	\$ -	\$ (35,000)	\$ 500,000	\$ 35,000
2005 Capital Improvement Bonds:							
Amount of issue: \$950,000	2.95% -	\$45,000 -					
Maturing through 2020	4.60%	\$85,000	905,000	-	(50,000)	855,000	50,000
Total business-type activities			\$ 1,440,000	\$ -	\$ (85,000)	\$ 1,355,000	\$ 85,000

City of Clio, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 65,975	\$ 25,858	\$ 91,833	\$ 85,000	\$ 55,703	\$ 140,703
2009	63,794	22,905	86,699	90,000	52,975	142,975
2010	60,513	20,107	80,620	95,000	49,970	144,970
2011	60,000	17,358	77,358	95,000	46,570	141,570
2012	60,000	14,523	74,523	105,000	42,968	147,968
2013-2017	205,000	36,055	241,055	585,000	147,578	732,578
2018-2021	60,000	4,125	64,125	300,000	25,140	325,140
Total	<u>\$ 575,282</u>	<u>\$ 140,931</u>	<u>\$ 716,213</u>	<u>\$ 1,355,000</u>	<u>\$ 420,904</u>	<u>\$ 1,775,904</u>

Note 8 - Restricted Assets

The balances of the restricted asset accounts relate to unspent bond proceeds and related interest in the Major Street Construction, Water, and Sewer Funds. These amounts are required to be set aside for construction of various specific road improvements as well as water and sewer lines.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance relating to risks associated with property loss, torts, and errors and omissions, as well as medical benefits other than dental and optical coverage. The City participates in the Michigan Municipal League for claims relating to employee injuries (workers' compensation). The City is uninsured for employee dental and optical claims, for which the City reimburses each employee annually, up to a maximum of \$900 per employee. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Joint Ventures

The City is a member of Clio Area Fire Authority, which provides fire protection services to the residents of the City of Clio, Vienna Township, and Thetford Township. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$48,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for Clio Area Fire Authority can be obtained from the administrative offices at 3400 W. Vienna Road, Clio, Michigan 48420.

The City is a member of Clio Area Library, which provides library services to the residents of the City of Clio, Vienna Township, and Thetford Township. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$6,400 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for Clio Area Library can be obtained from the administrative offices at 3400 W. Vienna Road, Clio, Michigan 48420.

The investments in joint ventures are not recorded in the financial statements as the City does not hold a definable interest in either of the entities and would not be able to collect payment upon terminating the relationship.

Note 11 - Pension Plan

Plan Description - The City participates in the Michigan Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The City is required to contribute 10 percent of the covered salaries and wages, while the employees contributed any excess amounts as determined by the actuary (approximately 0.92 percent in 2006).

Note 11 - Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost of \$53,891 (employer and employee amount of \$49,332 and \$4,559, respectively) for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at August 1, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return, (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases (4.5 percent per year representing annual inflation), and (c) the assumption that benefits will increase 2.5 percent per year (annually) after retirement, for certain retirees. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension costs (APC)	\$ 53,891	\$ 56,551	\$ 43,625
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	December 31		
	2006	2005	2004
Actuarial value of assets	\$ 392,235	\$ 310,596	\$ -
Actuarial accrued liability (AAL) (entry age)	\$ 615,004	\$ 574,738	\$ 403,570
Unfunded AAL (UAAL)	\$ (222,769)	\$ (264,142)	\$ (403,570)
Funded ratio	64%	54%	-
Covered payroll	\$ 506,293	\$ 534,688	\$ 484,417
UAAL as a percentage of covered payroll	44%	49%	83%

Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The City pays the full cost of coverage for these benefits. Currently, two retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2007, the City made payments for postemployment health benefit premiums of approximately \$12,700. The City obtains healthcare coverage through private insurers.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Required Supplemental Information

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<u>Revenue</u>				
Property taxes	\$ 856,219	\$ 862,640	\$ 843,607	\$ (19,033)
State sources	292,377	296,178	293,023	(3,155)
Other sources	136,477	197,147	188,187	(8,960)
Operating transfers in	15,562	30,062	30,062	-
Total revenue	1,300,635	1,386,027	1,362,379	(23,648)
<u>Expenditures</u>				
General Government				
Office of the mayor	2,892	2,612	2,590	22
Board of Review	1,190	1,040	1,034	6
Commission	13,815	15,452	15,464	(12)
Elections	12,679	10,479	9,980	499
Assessor	22,020	22,220	22,218	2
Clerk	78,172	70,750	71,042	(292)
Treasurer	33,617	33,942	33,621	321
City Hall	69,417	62,269	63,846	(1,577)
City shop	37,077	39,777	39,867	(90)
Administration	77,295	71,370	70,335	1,035
Legal services	33,400	36,707	38,514	(1,807)
Retirement activities	14,128	14,293	13,892	401
Total general government	395,702	380,911	382,403	(1,492)
Public Safety				
Police	595,973	523,655	527,767	(4,112)
Fire	48,305	48,107	48,106	1
Inspection services	-	22,300	22,376	(76)
Total public safety	644,278	594,062	598,249	(4,187)
Public Works				
Mosquito control	400	-	-	-
Public service	63,759	63,759	68,942	(5,183)
Street lighting	35,086	39,843	39,913	(70)
Planning	10,337	5,523	5,785	(262)
Zoning	1,969	271	270	1
Storm water regulations	1,000	-	1,000	(1,000)
Total public works	112,551	109,396	115,910	(6,514)

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (Continued)				
Recreation and Cultural				
Senior citizen programs	\$ 5,600	\$ 5,600	\$ 5,600	\$ -
Parks	60,959	77,542	83,167	(5,625)
Library	6,300	6,375	6,375	-
Bike path	12,727	9,866	10,024	(158)
Total recreation and cultural	85,586	99,383	105,166	(5,783)
Civic Buildings				
Roger's Lodge	16,505	15,805	16,464	(659)
500 South Mill Street	15,562	26,439	26,725	(286)
Total civic buildings	32,067	42,244	43,189	(945)
Debt Service	312	312	310	2
Operating Transfers Out	23,462	44,774	46,560	(1,786)
Total expenditures	1,293,958	1,301,144	1,291,787	(20,705)
Excess of Revenue Over Expenditures	6,677	84,883	70,592	\$ (14,291)
Fund Balance - Beginning of year	256,356	256,356	256,356	
Fund Balance - End of year	\$ 263,033	\$ 341,239	\$ 326,948	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Streets Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 147,700	\$ 136,804	\$ 137,020	\$ 216
Interest	2,500	5,851	5,967	116
Other revenue	-	5,507	5,508	1
Transfer in	8,773	6,700	-	(6,700)
Total revenues	158,973	154,862	148,495	(6,367)
Expenditures				
General government	23,187	17,797	16,444	1,353
Highways and streets	56,311	76,034	80,440	(4,406)
Debt service	65,783	65,783	65,693	90
Operating transfers out	13,692	12,820	612	12,208
Total expenditures	158,973	172,434	163,189	9,245
Excess of Expenditures Over Revenue	-	(17,572)	(14,694)	\$ 2,878
Fund Balance - Beginning of year	137,602	137,602	137,602	
Fund Balance - End of year	\$ 137,602	\$ 120,030	\$ 122,908	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Local Streets Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 40,018	\$ 37,550	\$ 37,442	\$ (108)
Charges for services	300	-	-	-
Interest	700	1,407	1,400	(7)
Other revenue	-	2,783	2,783	-
Operating transfers in	<u>19,571</u>	<u>18,699</u>	<u>-</u>	<u>(18,699)</u>
Total revenues	60,589	60,439	41,625	(18,814)
Expenditures				
General government	20,525	12,401	10,872	1,529
Highways and streets	30,878	29,086	31,574	(2,488)
Debt service	8,330	8,330	8,330	-
Operating transfers out	<u>856</u>	<u>856</u>	<u>367</u>	<u>489</u>
Total expenditures	<u>60,589</u>	<u>50,673</u>	<u>51,143</u>	<u>(470)</u>
Excess of Revenue Over (Under) Expenditures	-	9,766	(9,518)	<u>\$ (19,284)</u>
Fund Balance - Beginning of year	<u>36,276</u>	<u>36,276</u>	<u>36,276</u>	
Fund Balance - End of year	<u>\$ 36,276</u>	<u>\$ 46,042</u>	<u>\$ 26,758</u>	

City of Clio, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Public Improvements Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - Interest	\$ 812	\$ 9,543	\$ 9,898	\$ 355
Operating Transfers Out	(15,562)	(30,062)	(30,062)	-
Excess of Expenditures Over Revenue	(14,750)	(20,519)	(20,164)	<u><u>\$ 355</u></u>
Fund Balance - Beginning of year	259,015	259,015	259,015	
Fund Balance - End of year	<u><u>\$ 244,265</u></u>	<u><u>\$ 238,496</u></u>	<u><u>\$ 238,851</u></u>	

City of Clio, Michigan

Note to Required Supplemental Information June 30, 2007

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." Unexpended appropriations lapse at year end.

The City follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The budget officer shall prepare and submit to the Commission, on or before the first regular meeting in April of each year, a budget document covering the next fiscal year tabulating the recommendations of several department heads and officials.
2. Not later than the third Monday of May, the Commission shall, by resolution, adopt the budget for the net fiscal year.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and each of the major Special Revenue Funds budgets as adopted by the City Commission is included in the required supplemental information. There was some expenditure budget overrun noted in the General, Major Streets, and Local Streets Funds in the current year, the most significant of which, relating to the General Fund's general government, public safety, public works, and recreation and culture, were a result of accruals at year end that were not reflected in the expenditure budgets. A comparison of the actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the City is available at the city clerk's office.

Other Supplemental Information

City of Clio, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Special Revenue Funds			Total Nonmajor Governmental Funds
	PEG	Sanitation Collection	Special Assessment Debt Service	
Assets				
Cash	\$ 21,772	\$ 14,324	\$ 51,620	\$ 87,716
Receivables - Special assessments	-	-	16,784	16,784
Total assets	<u>\$ 21,772</u>	<u>\$ 14,324</u>	<u>\$ 68,404</u>	<u>\$ 104,500</u>
Liabilities and Fund Balances				
Liabilities				
Accrued and other liabilities	\$ -	\$ 169	\$ -	\$ 169
Deferred revenue	-	-	16,784	16,784
Total liabilities	-	169	16,784	16,953
Fund Balances - Unreserved and undesignated	<u>21,772</u>	<u>14,155</u>	<u>51,620</u>	<u>87,547</u>
Total liabilities and fund balances	<u>\$ 21,772</u>	<u>\$ 14,324</u>	<u>\$ 68,404</u>	<u>\$ 104,500</u>

City of Clio, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2007

	Special Revenue Funds			Total Nonmajor Governmental Funds
	PEG	Sanitation Collection	Special Assessment Debt Service	
Revenue				
Charges for services	\$ -	\$ 102,025	\$ -	\$ 102,025
Interest	1,051	-	4,032	5,083
Other	1,483	-	4,766	6,249
Total revenue	2,534	102,025	8,798	113,357
Expenditures				
Public works	-	97,092	-	97,092
Debt service	-	-	15,170	15,170
Total expenditures	-	97,092	15,170	112,262
Excess of Revenue Over (Under) Expenditures	2,534	4,933	(6,372)	1,095
Other Financing Sources - Transfers in	-	490	-	490
Net Change in Fund Balances	2,534	5,423	(6,372)	1,585
Fund Balances - Beginning of year	19,238	8,732	57,992	85,962
Fund Balances - End of year	<u>\$ 21,772</u>	<u>\$ 14,155</u>	<u>\$ 51,620</u>	<u>\$ 87,547</u>



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October 30, 2007

To the Honorable Mayor and
Members of the City Commission
City of Clio
Clio, Michigan

Dear Mayor and Commission Members:

We recently completed our audit of the basic financial statements of City of Clio for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

New auditing rules effective December 31, 2006 have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standards (Statement on Auditing Standards Number 112, referred to as SAS 112) require us to inform you about any matters noted in your accounting procedures or internal controls that the new auditing standards define as a significant deficiency. The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency. For example, the requirements of SAS 112 go so far as to classify certain journal entries proposed by your auditor as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have provided our comments and observations as part of a meeting or discussion at the end of our work directly to management. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the board of trustees, in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit of the financial statements of City of Clio as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

October 30, 2007

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

From our audit procedures, we noted that items that should be capitalized are not being properly recorded. Two pieces of equipment totaling \$48,129 were not capitalized. As a result, audit adjustments were made to properly record these items.

The following items are not significant deficiencies as defined above, but are provided for your information:

Water Loss

In the prior year, we noted in our letter to the Commission that the City's water loss (i.e., the amount of water pumped into the mains but not sold to customers) had increased. We noted that the water loss continues to increase. The water loss rate for the City was 20 percent and 25 percent for the years ended June 30, 2006 and 2007, respectively. We understand that the City has undertaken efforts to locate the source of the water loss. We recommend that you continue these efforts in the upcoming year.

New Auditing Standards

Major and comprehensive changes were made to auditing rules in 2006 (June 30, 2007 year end for City of Clio). These new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules for governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

Some of these new standards became effective for audits of financial statements dated December 31, 2006 and after. As a result, auditors are required to comply with very specific rules related to the form, content, and extent of audit documentation, including more thorough documentation of auditing procedures and results. Other new guidelines affect the audit evidence that must be obtained before an auditor can consider an audit complete.

October 30, 2007

Another new rule requires auditors to more formally communicate matters they observe about their clients' accounting procedures and internal controls. Auditors are now required to inform clients about any "significant deficiencies" in accounting procedures or internal controls that come to their attention. Significant deficiency is a defined term that includes any flaw creating more than a remote risk of errors in financial statements that could reasonably matter to a user of the statements. Auditors must now communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for operations, in addition to management.

The remainder of the new rules will become effective for audits of financial statements dated December 31, 2007 and later (June 30, 2008 for the City of Clio). These new rules, which are known collectively as the new Risk Assessment Standards, significantly change the procedures auditors must perform in all financial statement audits. Under these new rules, auditors will be required to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Over the next several months, our firm will be investing heavily to implement our new audit methodology and train our staff on these changes. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

October 30, 2007

As we move forward, we will be communicating with you regularly about matters that will affect your next financial statement audit. In addition, we plan to begin to work with you during the upcoming year in a number of areas, including review and documentation of your internal accounting procedures and controls, to ensure a smooth transition to these new standards. We will be in contact with you in the near future to discuss these matters in more detail.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about your internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications you will receive from us about the results of our audit work, will enhance the value you receive from your financial statement audit.

Revenue Sharing

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of "to-be-determined" cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.

October 30, 2007

- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Further changes to Michigan's tax structure were made on October 1 as described above to partially close the structural budget deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels.

It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

New Michigan Business Tax

As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT.

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes: a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of less than 5 percent on business income. The MBT provides for new investment, compensation and research and development credits to businesses. The MBT also allows certain qualified small businesses to opt out of the MBT and pay a straight 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

October 30, 2007

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees, impact on school dollars available for capture for certain tax increment financing authorities, and property classifications) that are the most directly impacted by the new MBT.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

Funding of Postemployment Benefit Obligations

As mentioned in previous years, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare benefits. The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, the City will need to continue to budget for contributions to a pre-funding plan. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. The statement, as previously mentioned, will be effective for the City's fiscal year ending June 30, 2010. The City will need to perform an actuarial valuation during the fiscal year ending June 30, 2009 to provide an estimate as to what these annual costs may amount to. The cost of health care currently paid each year as premiums become due has been increasing and the trend is expected to continue.

To the Honorable Mayor and
Members of the City Commission
City of Clio

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October 30, 2007

Municipal Finance Act Revisions

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months following the end of the City's year ended June 30, 2007 and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

We would like to thank Jack Abernathy, Don Dowell, and Shelly King, as well as all of the City's personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



David H. Helisek



Kellie L. Goines